



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 27, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on Montgomery County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$13,249,558 for the year ended June 30, 2004, which included \$820,236 in tax credits from the state. The County forwarded \$9,734,568 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,514,990 of the local tax revenue to finance County operations, a 1 percent decrease from the prior year. Other revenues included charges for service of \$719,827, operating grants, contributions and restricted interest of \$2,874,720, capital grants, contributions and restricted interest of \$105,887, unrestricted investment earnings of \$31,766, local option sales and services tax of \$289,557 and other general revenues of \$92,656.

Expenses for County operations totaled \$7,119,921. Expenses included \$2,562,128 for roads and transportation, \$1,523,907 for public safety and legal services and \$821,818 for mental health.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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MONTGOMERY COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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Montgomery County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Leland Carmichael	Board of Supervisors	Jan 2005
Margaret Stoldorf	Board of Supervisors	Jan 2005
Glen Benskin	Board of Supervisors	Jan 2007
Dale Carlson	Board of Supervisors	Jan 2007
Harry Vannausdle	Board of Supervisors	Deceased
Connie Magneson	County Auditor	Jan 2005
Anita Walker	County Treasurer	Jan 2007
JoAnn Butler Good	County Recorder	Jan 2007
Anthony Updegrove	County Sheriff	Jan 2005
Bruce Swanson	County Attorney	Jan 2007
Stacy Vondielingen	County Assessor	Jan 2010

Montgomery County



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Independent Auditor's Report

To the Officials of Montgomery County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montgomery County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Montgomery County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Montgomery County at June 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, for the year ended June 30, 2004, Montgomery County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2005 on our consideration of Montgomery County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 38 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Montgomery County's basic financial statements. The financial statements for the three years ended June 30, 2003 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montgomery County provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because this is the first year that requires activities to be reported on a full accrual basis, a comprehensive comparison to the prior year is not possible. Efforts have been made to provide comparison to prior year data when such data is available. In subsequent years, comparison to prior year data will be provided for all key financial information.

2004 FINANCIAL HIGHLIGHTS

- Governmental fund revenue decreased 6%, or \$475,785, from fiscal year 2003 (FY03). This is due primarily to a decrease in intergovernmental revenues.
- Governmental fund expenditures for FY04 decreased 7.65%, or \$597,477, from FY03. Decreased spending in the areas of mental health, county environment and education, and capital projects contributed largely to the lower expenditures.
- The County's net assets increased 12.5%, or approximately \$509,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements, as well as other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Montgomery County as a whole and present an overall view of the County's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Montgomery County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Montgomery County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds.

REPORTING THE COUNTY AS A WHOLE:

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus. This is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and other non-program activities. Property tax and state and federal grants finance most of these activities.

REPORTING THE COUNTY BY FUNDS:

The Fund Financial Statements

The fund financial statements provide detailed information about individual, significant funds, not the County as a whole. Some funds are required to be established by Iowa law or by bond covenants. The County establishes other funds to help it control and manage money for particular purposes.

The County has two kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These governmental funds include: 1) the General Fund, 2) Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Debt Service Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for emergency management services and the County Assessor, to name a few.

The financial statement required for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Montgomery County's net assets at June 30, 2004 totaled approximately \$4.59 million. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities	
	June 30, 2004
Current and other assets	\$ 6,690,047
Capital assets	2,560,697
Total assets	<u>9,250,744</u>
Long-term liabilities	458,918
Other liabilities	4,199,146
Total liabilities	<u>4,658,064</u>
Net assets:	
Invested in capital assets, net of related debt	2,537,264
Restricted	1,844,789
Unrestricted	<u>210,627</u>
Total net assets	<u>\$ 4,592,680</u>

The largest portion of the County's net assets is the invested in capital assets (e.g., land infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is \$210,627.

Changes in Net Assets of Governmental Activities	
	Year ended June 30, 2004
Revenues:	
Program revenues:	
Charges for service	\$ 719,827
Operating grants, contributions and restricted interest	2,874,720
Capital grants, contributions and restricted interest	105,887
General revenues:	
Property tax	3,318,833
Penalty and interest on property tax	41,053
State tax credits	196,157
Local option sales and services tax	289,557
Grants and contributions not restricted to specific purposes	18,625
Unrestricted investment earnings	31,766
Other general revenues	32,978
Total revenues	<u>7,629,403</u>
Program expenses:	
Public safety and legal services	1,523,907
Physical health and social services	751,411
Mental health	821,818
County environment and education	419,756
Roads and transportation	2,562,128
Governmental services to residents	402,324
Administration	634,674
Non-program	172
Interest on long-term debt	3,731
Total expenses	<u>7,119,921</u>
Increase in net assets	509,482
Net assets beginning of year, as restated	<u>4,083,198</u>
Net assets end of year	<u>\$ 4,592,680</u>

In the original Montgomery County FY 2004 budget, property tax rates increased by \$.78 per \$1,000 of taxable valuation in the urban levy and increased \$.87 per \$1,000 of taxable valuation in the rural levy from FY 2003. However, the County's FY 2004 budget was protested by citizens and a budget appeal was filed with the State Appeal Board. The State Appeal Board's decision held Montgomery County to FY 2003 property and utility tax levies of \$2,108,587 in the General Fund, \$280,954 in the Mental Health Fund and \$1,127,125 in the Rural Services Fund. After adjusting to the lower levies, the FY 2004 property tax rates decreased \$.14 per \$1,000 of taxable valuation in the urban levy and \$.18 per \$1,000 of taxable valuation in the rural levy.

INDIVIDUAL MAJOR FUND ANALYSIS

As Montgomery County completed the year, its governmental funds reported a total fund balance of \$2,414,573, an increase of \$283,863 over the fund balance at June 30, 2003.

The General Fund, the operating fund for Montgomery County, ended FY04 with a balance of \$564,228, up \$90,564 from FY03's ending balance of \$473,664.

Montgomery County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY04 ended with a \$165,725 fund balance, whereas FY03 ended with a fund balance of \$122,066.

The Rural Services Fund ended with a \$112,364 balance compared to the prior year ending fund balance of \$88,521.

The Secondary Roads Fund ended FY04 with a \$1,437,683 balance compared to the prior year ending fund balance of \$1,224,921. Secondary Roads expenditures in FY04 totaled \$2,465,310, a decrease of \$136,333 from the previous year.

BUDGETARY HIGHLIGHTS

Montgomery County amended the budget in November of 2003 for receipt and disbursement increases in bioterrorism, parenting and child health grants. The budget was amended again in May of 2004 for increases in receipts from child support recovery, sale of seized property, other miscellaneous sheriff's fees, bioterrorism grant and parenting grants and increases in disbursements for the purchase of a drug dog, vehicle repair, publication costs, care of prisoners and jail repair.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY04, Montgomery County had approximately \$2.6 million invested in a broad range of capital assets, including public safety equipment, vehicles, buildings, roads, and bridges.

Montgomery County had depreciation expense of \$262,156 in FY04 and total accumulated depreciation of \$1,831,010 at June 30, 2004. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-term Debt

At June 30, 2004, Montgomery County had \$23,433 in a capital lease purchase agreement and \$253,800 in loans payable outstanding. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTS AND NEXT YEAR'S BUDGETS AND RATES

Montgomery County's elected and appointed officials and citizens consider many factors when setting the county budget, tax rates and fees for the various county services. General Fund levies for FY05 were set at \$4.48 per \$1,000 of taxable valuation.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Montgomery County's finances, and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joni Ernst at the Montgomery County Auditor's Office, by mail at PO Box 469, Red Oak, Iowa 51566, or by telephone at (712) 623-5127.

Montgomery County

Basic Financial Statements

Montgomery County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 2,350,880
Receivables:	
Property tax:	
Delinquent	3,934
Succeeding year	3,519,000
Interest and penalty on property tax	4,670
Accounts	15,814
Accrued interest	1,668
Due from other governments	526,150
Inventories	267,931
Capital assets (net of accumulated depreciation)	2,560,697
Total assets	<u>9,250,744</u>
Liabilities	
Accounts payable	471,755
Salaries and benefits payable	90,854
Due to other governments	117,537
Deferred revenue:	
Succeeding year property tax	3,519,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreement	11,458
Loans	62,057
Compensated absences	119,448
Portion due or payable after one year:	
Capital lease purchase agreement	11,975
Loans	191,743
Compensated absences	62,237
Total liabilities	<u>4,658,064</u>
Net Assets	
Invested in capital assets, net of related debt	2,537,264
Restricted for:	
Supplemental levy purposes	221,363
Mental health purposes	175,410
Secondary roads purposes	1,159,295
Debt service	2,127
Other purposes	286,594
Unrestricted	210,627
Total net assets	<u>\$ 4,592,680</u>

See notes to financial statements.

Montgomery County
Statement of Activities
Year ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,523,907	157,011	24,547	-	(1,342,349)
Physical health and social services	751,411	203,699	341,623	-	(206,089)
Mental health	821,818	82,118	536,617	-	(203,083)
County environment and education	419,756	9,461	203,030	-	(207,265)
Roads and transportation	2,562,128	7,879	1,746,851	105,887	(701,511)
Governmental services to residents	402,324	243,006	314	-	(159,004)
Administration	634,674	16,653	19,525	-	(598,496)
Non-program	172	-	-	-	(172)
Interest on long-term debt	3,731	-	2,213	-	(1,518)
Total	\$ 7,119,921	719,827	2,874,720	105,887	(3,419,487)
General Revenues:					
Property and other county tax levied for general purposes					3,318,833
Penalty and interest on property tax					41,053
State tax credits					196,157
Local option sales and services tax					289,557
Grants and contributions not restricted to specific purpose					18,625
Unrestricted investment earnings					31,766
Gain on disposal of capital assets					12,056
Miscellaneous					20,922
Total general revenues					3,928,969
Change in net assets					509,482
Net assets beginning of year, as restated					4,083,198
Net assets end of year					\$ 4,592,680

See notes to financial statements.

Montgomery County

Balance Sheet
Governmental Funds

June 30, 2004

	General	Special Revenue	
		Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 531,934	307,219	137,185
Receivables:			
Property tax:			
Delinquent	3,216	375	343
Succeeding year	2,260,000	263,000	996,000
Interest and penalty on property tax	4,670	-	-
Accounts	7,644	-	-
Accrued interest	1,668	-	-
Due from other funds	75,644	-	-
Due from other governments	118,133	31,602	252
Inventories	-	-	-
Total assets	\$ 3,002,909	602,196	1,133,780
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 99,465	24,718	3,106
Salaries and benefits payable	53,324	-	14,022
Due to other funds	-	25,654	7,865
Due to other governments	3,075	113,414	92
Deferred revenue:			
Succeeding year property tax	2,260,000	263,000	996,000
Other	22,817	9,685	331
Total liabilities	2,438,681	436,471	1,021,416
Fund balances:			
Reserved for:			
Supplemental levy purposes	202,988	-	28,867
Debt service	-	-	-
Resource enhancement and protection	110,653	-	-
Unreserved, reported in:			
General fund	250,587	-	-
Special revenue funds	-	165,725	83,497
Total fund balances	564,228	165,725	112,364
Total liabilities and fund balances	\$ 3,002,909	602,196	1,133,780

See notes to financial statements.

Secondary Roads	Nonmajor Governmental	Total
1,204,196	170,346	2,350,880
-	-	3,934
-	-	3,519,000
-	-	4,670
1,201	6,969	15,814
-	-	1,668
43,465	-	119,109
138,072	238,091	526,150
267,931	-	267,931
1,654,865	415,406	6,809,156
192,718	151,748	471,755
23,508	-	90,854
-	85,590	119,109
956	-	117,537
-	-	3,519,000
-	43,495	76,328
217,182	280,833	4,394,583
-	-	231,855
-	2,127	2,127
-	-	110,653
-	-	250,587
1,437,683	132,446	1,819,351
1,437,683	134,573	2,414,573
1,654,865	415,406	6,809,156

Montgomery County

Montgomery County

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets

June 30, 2004

Total governmental fund balances (page 17) \$ 2,414,573

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$4,391,707 and the accumulated depreciation is \$1,831,010. 2,560,697

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 76,328

Long-term liabilities, including capital lease purchase agreement payable, loans payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (458,918)

Net assets of governmental activities (page 14) \$ 4,592,680

See notes to financial statements.

Montgomery County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	Special Revenue		
	General	Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,989,061	265,026	1,071,101
Interest and penalty on property tax	36,484	-	-
Intergovernmental	752,908	625,980	54,024
Licenses and permits	4,291	-	-
Charges for service	297,359	-	1,560
Use of money and property	50,981	-	-
Miscellaneous	47,456	125	-
Total revenues	<u>3,178,540</u>	<u>891,131</u>	<u>1,126,685</u>
Expenditures:			
Operating:			
Public safety and legal services	1,264,557	-	253,270
Physical health and social services	754,554	-	-
Mental health	-	821,818	-
County environment and education	171,788	-	31,818
Roads and transportation	-	-	163,390
Governmental services to residents	380,815	-	2,391
Administration	604,124	-	-
Non-program	172	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>3,176,010</u>	<u>821,818</u>	<u>450,869</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,530</u>	<u>69,313</u>	<u>675,816</u>
Other financing sources (uses):			
Sale of capital assets	-	-	-
Operating transfers in	91,276	-	-
Operating transfers out	(43,242)	(25,654)	(651,973)
Loan proceeds	40,000	-	-
Total other financing sources (uses)	<u>88,034</u>	<u>(25,654)</u>	<u>(651,973)</u>
Net change in fund balances	90,564	43,659	23,843
Fund balances beginning of year, as restated	<u>473,664</u>	<u>122,066</u>	<u>88,521</u>
Fund balances end of year	<u>\$ 564,228</u>	<u>165,725</u>	<u>112,364</u>

See notes to financial statements.

Secondary Roads	Nonmajor Governmental	Total
-	260,258	3,585,446
-	-	36,484
1,744,736	193,262	3,370,910
760	-	5,051
-	26,045	324,964
2,383	314	53,678
7,034	16,094	70,709
1,754,913	495,973	7,447,242
-	20,181	1,538,008
-	-	754,554
-	-	821,818
-	208,533	412,139
2,360,233	35,786	2,559,409
-	-	383,206
-	11,275	615,399
-	-	172
103,959	14,522	118,481
1,118	1,275	2,393
2,465,310	291,572	7,205,579
(710,397)	204,401	241,663
2,200	-	2,200
920,959	14,030	1,026,265
-	(305,396)	(1,026,265)
-	-	40,000
923,159	(291,366)	42,200
212,762	(86,965)	283,863
1,224,921	221,538	2,130,710
1,437,683	134,573	2,414,573

Montgomery County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 21) \$ 283,863

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 250,002	
Capital assets contributed by the Iowa Department of Transportation	105,887	
Depreciation expense	(262,156)	93,733

In the Statement of Activities, the gain on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. 9,856

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	(6,355)	
Other	70,573	64,218

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year payments exceeded issues, as follows:

Issued	(40,000)	
Repaid	116,247	76,247

Compensated absences in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (18,435)

Change in net assets of governmental activities (page 15) \$ 509,482

See notes to financial statements.

Montgomery County

Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2004

Assets

Cash and pooled investments:	
County Treasurer	\$ 505,340
Other County officials	17,592
Property tax receivable:	
Delinquent	17,882
Succeeding year	9,700,000
Due from other governments	14,816
Total assets	<u>10,255,630</u>

Liabilities

Accounts payable	2,953
Salaries and benefits payable	2,428
Due to other governments	10,234,095
Trusts payable	12,426
Compensated absences	3,728
Total liabilities	<u>10,255,630</u>

Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Montgomery County

Notes to Financial Statements

June 30, 2004

(1) **Summary of Significant Accounting Policies**

Montgomery County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Montgomery County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County. The County has not component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Montgomery County Assessor's Conference Board, Montgomery County Emergency Management Agency and County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

In addition, the County is involved in the following jointly governed organizations: Alcohol and Drug Assistance Agency, Fourth Judicial District, Southwest Iowa Planning Council, Red Oak Industrial Foundation, West Central Development Corporation, Sanitary Landfill, Waubonsie Mental Health Center, Nishna Productions, Golden Hills – Resource Conservation and Development, Southwest Iowa Juvenile Detention Center. Financial transactions of these organizations are not included in the County's financial statements.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance for capital lease purchase agreement attributable to the acquisition of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Fiduciary Funds – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments in non-negotiable certificates of deposit are stated at cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at

historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 65,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	40 - 50
Building improvements	20 - 50
Infrastructure	30 - 50
Equipment	2 - 20
Vehicles	3 - 10

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column of the Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted by function. However, disbursements in one department exceeded the appropriation prior to the amendment.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Mental Health	\$ 25,654
	Local Option Sales and Services Tax	49,990
		<u>75,644</u>
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	7,865
	Local Option Sales and Services Tax	35,600
		<u>43,465</u>
Total		<u>\$ 119,109</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Mental Health	\$ 25,654
	Local Option Sales and Services Tax	65,622
		<u>91,276</u>
Special Revenue:	General	29,212
Secondary Roads	Special Revenue:	
	Rural Services	651,973
	Local Option Sales and Services Tax	239,774
		<u>920,959</u>
Debt Service	General	<u>14,030</u>
Total		<u>\$ 1,026,265</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>			<u>End</u>
	<u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
	<u>(as restated)</u>			
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 278,178	48,495	-	326,673
Capital assets being depreciated:				
Buildings	491,525	-	-	491,525
Equipment and vehicles	3,441,069	280,652	(205,604)	3,516,117
Infrastructure, road network	-	57,392	-	57,392
Total capital assets being depreciated	<u>3,932,594</u>	<u>338,044</u>	<u>(205,604)</u>	<u>4,065,034</u>
Less accumulated depreciation for:				
Buildings	282,951	11,587	-	294,538
Equipment and vehicles	1,470,713	249,673	(184,810)	1,535,576
Infrastructure, road network	-	896	-	896
Total accumulated depreciation	<u>1,753,664</u>	<u>262,156</u>	<u>(184,810)</u>	<u>1,831,010</u>
Total capital assets being depreciated, net	<u>2,178,930</u>	<u>75,888</u>	<u>(20,794)</u>	<u>2,234,024</u>
Governmental activities capital assets, net	<u>\$ 2,457,108</u>	<u>124,383</u>	<u>(20,794)</u>	<u>2,560,697</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 35,029
Physical health and social services	2,482
County environment and education	12,430
Roads and transportation	192,345
Governmental services to residents	586
Administration	<u>19,284</u>
Total depreciation expense - governmental activities	<u>\$ 262,156</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 3,075
Special Revenue:		
Mental Health	Services	113,414
Rural Services	Services	92
Secondary Roads	Services	956
		<u>114,462</u>
Total for governmental funds		<u>\$ 117,537</u>
Agency:		
County Assessor	Collections	\$ 329,889
Schools		5,459,772
Community Colleges		232,577
Corporations		2,538,770
Auto License and Use Tax		186,734
County Hospital		1,164,036
All other		322,317
Total for agency funds		<u>\$ 10,234,095</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Capital Lease Purchase Agreement	Loans	Compen- sated Absences	Total
Balance beginning of year, as restated	\$ 34,331	319,149	163,250	516,730
Increase	-	40,000	148,128	188,128
Decreases	10,898	105,349	129,693	245,940
Balance end of year	<u>\$ 23,433</u>	<u>253,800</u>	<u>181,685</u>	<u>458,918</u>
Due within one year	<u>\$ 11,458</u>	<u>62,057</u>	<u>119,448</u>	<u>192,963</u>

Capital Lease Purchase Agreement

The County has entered into a capital lease purchase agreement to lease equipment with historical cost of \$53,763. The following is a schedule of the future minimum lease payments, including interest at 4.50% per annum, and the present value of the net minimum lease payments under the agreement in effect at June 30, 2004:

Year ending June 30,	Secondary Roads Equipment
2005	\$ 12,488
2006	12,489
2007	1
Total minimum lease payments	24,978
Less amount representing interest	(1,545)
Present value of net minimum lease payments	<u>\$ 23,433</u>

Payments under the capital lease purchase agreement totaled \$12,488 for the year ended June 30, 2004, including interest expense of \$1,590.

Loans

The County has entered into loans for the purchase of communication equipment and disaster aid. The loans bear interest ranging from 0.00% to 5.75% per annum and mature in July, 2008 and November, 2008.

A summary of the County's June 30, 2004 loan indebtedness is as follows:

Year ending June 30,	State Disaster Aid			Communication Equipment			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 54,515	-	54,515	7,542	1,311	8,853	62,057	1,311	63,368
2006	54,515	-	54,515	7,854	999	8,853	62,369	999	63,368
2007	54,515	-	54,515	8,178	674	8,852	62,693	674	63,367
2008	54,515	-	54,515	8,515	337	8,852	63,030	337	63,367
2009	-	-	-	3,651	37	3,688	3,651	37	3,688
Total	<u>\$ 218,060</u>	<u>-</u>	<u>218,060</u>	<u>35,740</u>	<u>3,358</u>	<u>39,098</u>	<u>253,800</u>	<u>3,358</u>	<u>257,158</u>

During the year ended June 30, 2004, \$105,349 of loans was retired.

(8) Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$154,565, \$165,894 and \$160,999, respectively, equal to the required contributions for each year.

(9) Risk Management

Montgomery County is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the County's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County's governmental activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 2,087,951
GASB Interpretation 6 adjustments	<u>42,759</u>
Net assets July 1, 2003, as restated for governmental funds	2,130,710
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$1,753,664	2,457,108
Long-term liabilities	(516,730)
Deferral of long-term assets	<u>12,110</u>
Net assets July 1, 2003, as restated	<u><u>\$ 4,083,198</u></u>

Montgomery County

Required Supplementary Information

Montgomery County
 Budgetary Comparison Schedule of
 Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2004

	Actual
Receipts:	
Property and other county tax	\$ 3,603,049
Interest and penalty on property tax	36,839
Intergovernmental	3,265,360
Licenses and permits	5,191
Charges for service	333,734
Use of money and property	55,328
Miscellaneous	42,925
Total receipts	7,342,426
Disbursements:	
Public safety and legal services	1,490,378
Physical health and social services	758,447
Mental health	817,365
County environment and education	253,742
Roads and transportation	2,416,243
Governmental services to residents	369,936
Administration	628,580
Non-program	172
Debt service	118,098
Capital projects	4,128
Total disbursements	6,857,089
Excess (deficiency) of receipts over (under) disbursements	485,337
Other financing sources, net	46,179
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	531,516
Balance beginning of year	1,819,364
Balance end of year	\$ 2,350,880

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
3,635,418	3,632,837	(29,788)
37,480	37,480	(641)
3,584,160	3,615,002	(349,642)
4,150	4,150	1,041
218,130	250,124	83,610
128,210	76,230	(20,902)
13,575	34,887	8,038
<u>7,621,123</u>	<u>7,650,710</u>	<u>(308,284)</u>
1,461,109	1,540,897	50,519
710,166	803,289	44,842
898,046	913,201	95,836
494,727	496,032	242,290
2,836,466	2,836,466	420,223
407,422	408,822	38,886
712,140	694,906	66,326
4,418	4,418	4,246
114,794	119,262	1,164
281,400	283,255	279,127
<u>7,920,688</u>	<u>8,100,548</u>	<u>1,243,459</u>
(299,565)	(449,838)	935,175
1,980	41,980	4,199
(297,585)	(407,858)	939,374
<u>1,495,643</u>	<u>1,817,559</u>	<u>1,805</u>
<u>1,198,058</u>	<u>1,409,701</u>	<u>941,179</u>

Montgomery County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,342,426	104,816	7,447,242
Expenditures	6,857,089	348,490	7,205,579
Net	485,337	(243,674)	241,663
Other financing sources, net	46,179	(3,979)	42,200
Beginning fund balances, as restated	1,819,364	311,346	2,130,710
Ending fund balances	<u>\$ 2,350,880</u>	<u>63,693</u>	<u>2,414,573</u>

See accompanying independent auditor's report.

Montgomery County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$179,860. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted by function. However, disbursements in one department exceeded the appropriation prior to the amendment.

Montgomery County

Other Supplementary Information

Montgomery County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2004

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Community Development Block Grant
Assets			
Cash and pooled investments	\$ 30,164	22,763	-
Accounts receivable	-	-	-
Due from other governments	-	14,196	151,220
Total assets	\$ 30,164	36,959	151,220
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	-	151,220
Due to other funds	-	-	-
Deferred revenue:			
Other	-	14,196	-
Total liabilities	-	14,196	151,220
Fund equity:			
Fund balances:			
Reserved for debt service	-	-	-
Unreserved	30,164	22,763	-
Total fund equity	30,164	22,763	-
Total liabilities and fund equity	\$ 30,164	36,959	151,220

See accompanying independent auditor's report.

Special Revenue							
Flood and Erosion	Local Option Sales and Services Tax	Seized and Forfeited Property - County Attorney	Seized and Forfeited Property - County Sheriff	Conservation Land Acquisition	Debt Service	Total	
811	85,590	915	8,039	19,409	2,655	170,346	
-	-	-	6,969	-	-	6,969	
-	72,675	-	-	-	-	238,091	
811	158,265	915	15,008	19,409	2,655	415,406	
-	-	-	-	-	528	151,748	
-	85,590	-	-	-	-	85,590	
-	29,299	-	-	-	-	43,495	
-	114,889	-	-	-	528	280,833	
-	-	-	-	-	2,127	2,127	
811	43,376	915	15,008	19,409	-	132,446	
811	43,376	915	15,008	19,409	2,127	134,573	
811	158,265	915	15,008	19,409	2,655	415,406	

Montgomery County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Community Development Block Grant
Revenues:			
Property and other county tax	\$ -	-	-
Intergovernmental	-	-	193,262
Charges for service	3,356	22,689	-
Use of money and property	240	74	-
Miscellaneous	-	-	-
Total revenues	3,596	22,763	193,262
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	-	193,262
Roads and transportation	-	-	-
Administration	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	-	-	193,262
Excess (deficiency) of revenues over (under) expenditures	3,596	22,763	-
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,596	22,763	-
Fund balances beginning of year	26,568	-	-
Fund balances end of year	\$ 30,164	22,763	-

See accompanying independent auditor's report.

Special Revenue							
Flood and Erosion	Local Option Sales and Services Tax	Seized and Forfeited Property - County Attorney	Seized and Forfeited Property - County Sheriff	Conservation Land Acquisition	Debt Service		Total
-	260,258	-	-	-	-	-	260,258
-	-	-	-	-	-	-	193,262
-	-	-	-	-	-	-	26,045
-	-	-	-	-	-	-	314
-	-	-	13,881	-	2,213	-	16,094
-	260,258	-	13,881	-	2,213	-	495,973
-	20,181	-	-	-	-	-	20,181
-	15,271	-	-	-	-	-	208,533
-	35,786	-	-	-	-	-	35,786
-	11,275	-	-	-	-	-	11,275
-	-	-	-	-	14,522	-	14,522
-	-	-	-	1,275	-	-	1,275
-	82,513	-	-	1,275	14,522	-	291,572
-	177,745	-	13,881	(1,275)	(12,309)	-	204,401
-	-	-	-	-	14,030	-	14,030
-	(305,396)	-	-	-	-	-	(305,396)
-	(305,396)	-	-	-	14,030	-	(291,366)
-	(127,651)	-	13,881	(1,275)	1,721	-	(86,965)
811	171,027	915	1,127	20,684	406	-	221,538
811	43,376	915	15,008	19,409	2,127	-	134,573

Montgomery County

Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,057	97,725	68,011
Other County officials	17,592	-	-	-
Receivables:				
Property tax:				
Delinquent	-	150	340	7,761
Succeeding year	-	105,000	239,000	5,384,000
Accounts	-	-	50	-
Total assets	\$ 17,592	106,207	337,115	5,459,772
Liabilities				
Accounts payable	\$ -	-	1,244	-
Salaries and benefits payable	-	-	2,254	-
Due to other governments	5,202	106,207	329,889	5,459,772
Trusts payable	12,390	-	-	-
Compensated absences	-	-	3,728	-
Total liabilities	\$ 17,592	106,207	337,115	5,459,772

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	Auto License and Use Tax	County Hospital	E911 Service	Other	Total
3,256	39,127	1,388	186,734	15,404	66,132	26,506	505,340
-	-	-	-	-	-	-	17,592
321	7,643	33	-	1,632	-	2	17,882
229,000	2,492,000	103,000	-	1,147,000	-	1,000	9,700,000
-	-	-	-	-	14,766	-	14,816
232,577	2,538,770	104,421	186,734	1,164,036	80,898	27,508	10,255,630
-	-	-	-	-	1,709	-	2,953
-	-	-	-	-	174	-	2,428
232,577	2,538,770	104,421	186,734	1,164,036	79,015	27,472	10,234,095
-	-	-	-	-	-	36	12,426
-	-	-	-	-	-	-	3,728
232,577	2,538,770	104,421	186,734	1,164,036	80,898	27,508	10,255,630

Montgomery County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 31,187	85,478	237,311	5,516,358
Additions:				
Property and other county tax	-	100,448	234,489	5,075,049
E911 surcharges	-	-	-	-
State tax credits	-	4,959	4,575	318,799
Drivers license fees	-	-	-	-
Office fees and collections	497,565	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	315,545	-	-	-
Miscellaneous	6,260	-	747	-
Total additions	819,370	105,407	239,811	5,393,848
Deductions:				
Agency remittances:				
To other funds	159,934	-	-	-
To other governments	351,425	84,678	140,007	5,450,434
Trusts paid out	321,606	-	-	-
Total deductions	832,965	84,678	140,007	5,450,434
Balances end of year	\$ 17,592	106,207	337,115	5,459,772

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	County Hospital	E911 Service	Other	Total
264,940	2,934,004	116,601	177,535	1,250,300	91,273	33,387	10,738,374
213,843	2,312,317	97,007	-	1,076,835	-	501	9,110,489
-	-	-	-	-	71,251	-	71,251
15,288	202,537	5,583	-	72,244	-	94	624,079
-	-	-	85,840	-	-	-	85,840
-	-	-	-	-	-	-	497,565
-	-	-	-	-	-	16,760	16,760
-	-	-	2,340,962	-	-	100	2,341,062
-	-	-	-	-	-	14,103	14,103
-	-	-	-	-	-	435,038	750,583
-	-	-	-	-	47,554	15,965	70,526
229,131	2,514,854	102,590	2,426,802	1,149,079	118,805	482,561	13,582,258
-	-	-	102,605	-	-	-	262,539
261,494	2,910,088	114,770	2,314,998	1,235,343	129,180	66,449	13,058,866
-	-	-	-	-	-	421,991	743,597
261,494	2,910,088	114,770	2,417,603	1,235,343	129,180	488,440	14,065,002
232,577	2,538,770	104,421	186,734	1,164,036	80,898	27,508	10,255,630

Schedule 5

Montgomery County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property and other county tax	\$ 3,585,446	3,574,165	3,111,868	2,846,791
Interest and penalty on property tax	36,484	53,932	37,515	41,017
Intergovernmental	3,370,910	3,963,034	3,334,778	3,669,037
Licenses and permits	5,051	5,165	4,580	3,657
Charges for service	324,964	230,626	211,918	196,648
Use of money and property	53,678	75,892	103,130	152,649
Miscellaneous	70,709	20,213	73,536	18,966
Total	<u>\$ 7,447,242</u>	<u>7,923,027</u>	<u>6,877,325</u>	<u>6,928,765</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,538,008	1,612,309	1,541,681	1,520,583
Physical health and social services	754,554	705,939	615,063	532,914
Mental health	821,818	922,694	918,130	847,500
County environment and education	412,139	550,533	386,154	265,338
Roads and transportation	2,559,409	2,440,342	2,437,700	2,269,604
Governmental services to residents	383,206	396,655	390,575	331,021
Administration	615,399	617,103	543,013	579,917
Non-program	172	92	4,345	2,587
Debt service	118,481	190,681	191,447	177,163
Capital projects	2,393	366,708	75,500	415,876
Total	<u>\$ 7,205,579</u>	<u>7,803,056</u>	<u>7,103,608</u>	<u>6,942,503</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Montgomery County:

We have audited the financial statements of Montgomery County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated April 11, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (3), (7) and (10).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Montgomery County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Montgomery County and other parties to whom Montgomery County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Montgomery County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 11, 2005

Montgomery County.
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – During our review of internal control, the existing control activities were evaluated in order to determine incompatible duties, from a control standpoint, were not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) Receipts – opening and listing mail receipts, collecting, depositing, posting and daily reconciling.	Treasurer, Recorder and Sheriff
(2) Disbursements – check or warrant writing, signing, posting, reconciling and final approval.	Treasurer, Recorder and Sheriff
(3) Bank reconciliations are not reviewed periodically for propriety by an independent person who does not sign checks, handle or record cash.	Treasurer, Recorder and Sheriff
(4) Investments – investing, custody and accounting.	Treasurer

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel or other County employees to provide additional control through review of financial transactions, reconciliations and reports.

Response:

County Treasurer – Because of being a small office it is difficult for everyone to not have access to all areas. I believe the access by all staff members is a double check on what is transpiring. We will try to adhere to the recommendation under the constraints of everyone does everything.

Montgomery County

Schedule of Findings

Year ended June 30, 2004

County Recorder – We will try to segregate duties as much as possible. We are a staff of two and do most transactions together. We have just hired a part-time clerk and we will try having her review bank records. She will be handling some cash but does not write checks or make out deposits.

County Sheriff – We will implement segregation of accounting tasks to improve accounting security for all areas identified.

Conclusion:

County Treasurer – Response acknowledged. Operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances, including the segregation of duties for items identified above and by utilizing current personnel or other County employees.

County Recorder – Response accepted.

County Sheriff – Response accepted.

- (B) Information Systems – During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- ownership of in-house developed software and data.
- maintaining security upon termination of employment.
- security over the information systems.
- communication of policies and expectations to all employees.
- password privacy and confidentiality.
- requiring users to change their password every 60 to 90 days.
- minimizing the risks of power surges and failures.
- Providing for an alternative power source.
- ensuring only software licensed to the County is installed on computers.

Also, the County does not have a written disaster recovery plan and employees are not trained for appropriate responses to emergency situations.

Montgomery County.

Schedule of Findings

Year ended June 30, 2004

Recommendation – The County should develop written policies addressing the above items in order to improve the County’s control over computer based systems. Also, a written disaster recovery plan should be developed which includes the computer system and equipment and employees should receive adequate training.

Response – The County will gather information from the other County information technology departments and the County’s contracted software company and compile its own written policy addressing the deficiencies. A disaster recovery plan will be developed for all county computer systems.

Conclusion – Response accepted.

- (C) Credit Cards – The County has various charge cards for use by certain employees while on County business. The County has not adopted a formal policy to regulate the use of charge cards and to establish procedures for the proper accounting of these charges.

Recommendation – The County should adopt a formal written policy regulating the use of County charge cards. The policy, at a minimum, should address who controls the cards, who is authorized to use charge cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – The County Auditor will analyze the need for and use of any and all County charge cards. A formal written policy will be adopted by the Board of Supervisors to regulate the use of charge cards and the proper accounting of the charges.

Conclusion – Response accepted.

- (D) County Assessor – Certain travel claims paid did not contain the purpose on the claim.

Recommendation – All claims should contain the purpose on the claim to document the travel is for a business purpose.

Response – The County Assessor will make sure all claims include the purpose of the claim.

Conclusion – Response acknowledged. The County Assessor’s Conference Board should also require all claims to include the purpose on the claim.

- (E) Local Board of Health – Collections were not always remitted to the County Treasurer timely. Also, nursing services billings, collections and receivables were not reconciled.

Recommendation – All collections should be remitted to the County Treasurer timely. Procedures should be established to reconcile nursing services billings, collections and receivables. The reconciliation should then be reviewed by an independent person in order to monitor accounts receivable.

Montgomery County

Schedule of Findings

Year ended June 30, 2004

Response –

In the past, collections have not been remitted to the County Treasurer within a “specified” time. When accounts were reconciled, the deposit would be made to the Treasurer. At times the reconciliation is complicated. A check is often received for an amount different from that which was billed. This necessitates several inquiries to resolve what items were paid, and what items are still outstanding. Our Department has been unaware that we are not in compliance with the directive to remit collections in a “timely manner.” It is my understanding, from our exit interview that there are no state or federal mandates stating an exact number of days that constitute “a timely manner.” It will be our plan to correct this issue by reconciling accounts and depositing collections with the County Treasurer within 30 days of receipt in the Public Health Agency office.

These services have been routinely reconciled, but in multiple places and on numerous forms, not one concise ledger form to view. After conversation during the audit, a form was developed that will track all nursing services billings, collections and accounts received on one form. After this form is completed monthly by the office manager, it will be reviewed, approved and initialed by the Agency Administrator. This form will be retained by the office manager for audit review and tracking purposes.

Conclusion – Response accepted.

- (F) Accounting Procedures Manuals – We encourage the development of office procedures and standardized accounting manuals for all County offices. These manuals should provide the following benefits:
- (1) Aid in training additional or replacement personnel.
 - (2) Help achieve uniformity in accounting and in the application of policies and procedures.
 - (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Recommendation – Office procedures and accounting manuals should be prepared for all County offices.

Response:

County Sheriff – We will develop a written policy for accounting procedures.

County Assessor – The Assessor’s office has a procedures manual, but did not have an accounting manual. The procedures manual will be updated, with any accounting procedures handled by the Assessor’s office added.

Montgomery County.
Schedule of Findings
Year ended June 30, 2004

Conclusion:

County Sheriff – Response accepted.

County Assessor – Response accepted.

- (G) Jail Commissary – Cash on hand is not reconciled to cash sales and purchases. Also, purchases were made with cash.

Recommendation – To improve financial accountability and control, a bank account should be established with all purchases made by check. A monthly reconciliation should be prepared to reconcile cash on hand to sales and purchases activity. Any profits from the commissary fund should also be remitted to the County Treasurer.

Response – We will create an account for commissary funds.

Conclusion – Response accepted.

- (H) Overpayment of Salary – The Emergency Management Coordinator was paid \$52 compensation in excess of that authorized due to a an error in the determination of the gross pay.

Recommendation – The Emergency Management Commission should seek reimbursement of this amount.

Response – This has been corrected. The overpayment has been reimbursed to Emergency Management Commission.

Conclusion – Response accepted.

- (I) Vacation Payouts – Numerous employees left County employment during the year ended June 30, 2004 and through December 31, 2004 and were paid for accumulated vacation time. Employees earn vacation on their anniversary date according to the number of years of employment. The payout calculation for some employees included vacation prorated for the time period between their last anniversary date and the date they left employment. However, the personnel policy does not address the allowability of prorating the vacation time and the method was not consistently applied to all employees who left.

Recommendation – The County should establish a policy for vacation payout. The County should consult legal counsel to determine the disposition of this matter.

Response – A policy will be established and made a part of the Personnel Policy. Regarding employees who left during fiscal year ending June 30, 2004, payment of vacation time will be checked for consistency of method of calculation. If necessary, and possible, adjustments will be made to correct any errors per the County Attorney's advice.

Conclusion – Response accepted.

Montgomery County

Schedule of Findings

Year ended June 30, 2004

- (J) Timesheets and Job Descriptions – Timesheets were not required to be used for elected officials and job descriptions for County employees could not be located.

Recommendation – Timesheets should be required for all personnel in all departments. The timesheets should be signed by the employee and should be reviewed and signed by the employee’s immediate supervisor or the County officer or department head prior to submission. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days. Job descriptions should be developed addressing each employees job duties for their professional development and to establish and achieve personal as well as County goals.

Response – Timesheets and guidance will be developed and distributed to our elected officials. County employee job descriptions will be developed with the assistance of department heads.

Conclusion – Response accepted.

- (K) Vehicle Usage and Travel Expense – The County has a written “Fleet Safety – Vehicle Operations Policy” to promote safe driving by employees. This policy prohibits the personal use of County vehicles by employees. However, the Secondary Roads department and the County Sheriff’s office provide vehicles to certain employees with on call status who are expected to be available with their vehicle at all times. Due to the on call status, certain employees may drive a County vehicle to and from work, within certain guidelines.

According to Internal Revenue Service (IRS) regulations, when an employee uses a County-provided vehicle that does not qualify as a non-personal use vehicle for personal use, including commuting, a non-cash taxable fringe benefit must be imputed to the employee. However, since the Sheriff’s vehicles are properly designated emergency vehicles that include markings, emergency lights, radio, etc, the use of these vehicles would qualify as a non-personal vehicle which would not be considered a taxable fringe benefit.

Social security taxes and IPERS are currently not being withheld and paid for personal vehicle usage by the Secondary Roads employee. Personal vehicle usage should be included in the determination of wages subject to social security taxes. In addition, IPERS regulations state wage equivalents provided for the convenience of the employee are covered wages. Therefore, IPERS should be calculated and paid for personal vehicle usage.

Recommendation – The Board of Supervisors should seek advice from the County Attorney and the IRS as to the proper disposition of payroll reporting for vehicle usage and whether the pickup truck driven by the Secondary Roads employee qualifies as a “nonpersonal use vehicle” under IRS guidelines.

Response – The Board will seek the advice of the County Attorney and IRS regarding this issue and follow the IRS recommendation on the proper disposition of payroll reporting for vehicle usage.

Conclusion – Response accepted.

Montgomery County.
Schedule of Findings
Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted by function.

However, disbursements in one department exceeded the appropriation prior to the amendment.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by decreasing or increasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – The County Auditor will be instructed as Clerk of the Board of Supervisors to keep the Board of Supervisors apprised of department disbursements and upcoming expenditures so appropriations to departments can be adjusted by resolution before disbursements are allowed.

Conclusion – Response accepted.

- (3) Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Hy-Vee	Expenses for employee picnic purchased by Conservation Board	\$ <u>54</u>

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The County Conservation Board should determine and document the public purpose served by these expenditures before authorizing any further payments. If these practices are continued, the Board should establish written policies and procedures, including the requirement for proper documentation.

Response - We will not do our picnic this way in the future.

Conclusion – Response accepted.

Montgomery County

Schedule of Findings

Year ended June 30, 2004

- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – No business transactions between the County and County officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not, except as follows:
 - The minutes of four Board of Supervisor meetings were not published as required by Chapter 349.18 of the Code of Iowa.
 - Certain minutes of the meetings of the County Board of Supervisors were not properly signed. An evening meeting was held on April 12, 2004, but neither the minutes nor the publication reflected that a meeting was held. Meeting minutes for a meeting held on June 30, 2004 were not included in the official minutes book.
 - Vote documentation and votes to adjourn numerous meetings were not always properly recorded and also the documented vote for two motions did not include all the votes of all members present at the meeting. At a subsequent meeting, the Board attempted to correct the documentation of the vote. Also, paper ballots were originally used to select a Board Chairman at the meeting on January 2, 2004.
 - Several minutes pages were glued or taped over on some or all of the original minute page in the official minute book. During a Board meeting held on February 18, 2004, the Courthouse doors were inadvertently locked while a Board meeting was in progress.
 - A resolution adopted at a meeting on May 27, 2004 was not signed by the Board and a resolution adopted at a meeting on October 24, 2002 was not dated.

Recommendation – The County should ensure the minutes are published and signed as required.

Also, all minutes should be included in the official minute book and votes should be properly handled and documented. The selection of a Board Chairman is required to be by roll call vote. Minute pages should be original and not be covered up or taped over. The doors should remain open whenever a public meeting is held and all resolutions should be properly signed and dated.

Response – The findings are noted. The practice of taping over minutes pages has been discontinued. All minutes will be in the official minute book and changes made to the originals will be done in such a way that the original can be read and the changes will be initialed by the person making the change.

The minutes are now published in the time period required by the Code of Iowa.

Montgomery County.

Schedule of Findings

Year ended June 30, 2004

The County Auditor and the Board of Supervisors Chairman are signing the minutes after they are prepared.

The Chairman is calling for roll call oral votes of members present at the meeting.

Resolutions are signed and dated following passage.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County's investment policy were noted. The current investment policy on file adopted by the Board does not contain the correct references to the Code of Iowa.

Recommendation – An updated investment policy should be adopted by the Board of Supervisors with references to Chapters 12B and 12C of the Code of Iowa.

Response – We have adopted an updated investment policy.

Conclusion – Response accepted.

- (9) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

However, the County's REAP financial report was not completed and filed by October 1, 2004.

Recommendation – The County's REAP financial report should be completed and filed as required by Chapter 33 of the Iowa Administrative Rules.

Response – We will try to file in a timely manner in the future.

Conclusion – Response accepted.

- (10) County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation – A compilation of County ordinances should be prepared and published as required by Section 331.302(9) of the Code of Iowa.

Response – The Board of Supervisors is in the process of compiling County ordinances and after compilation the necessary publication will be made.

Conclusion – Response accepted.

- (11) Economic Development – The County paid \$15,000 to the Montgomery County Development Corporation. This payment may not be an appropriate expenditure of public funds since the public benefits to be derived has not been clearly documented.

Montgomery County

Schedule of Findings

Year ended June 30, 2004

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board of Supervisors should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Response – The Board of Supervisors will ask Montgomery County Economic Development Corporation (MCDC) to provide information regarding the public purpose that will be served by the funds to accomplish economic development activities.

The Board of Supervisors will discuss criteria to be considered in documenting the public purpose before authorizing payments to MCDC.

Conclusion – Response accepted.

- (12) Compensation of Veteran's Affairs Commissioners – Members of the Veteran's Affairs Commission were paid \$50 for each meeting attended. Chapter 35B.5 of the Code of Iowa states that a member shall receive \$25 for each month during which the member attends one or more commission meetings.

Recommendation – The Commissioners should be compensated in accordance with Chapter 35B.5 of the Code of Iowa. The County should consult legal counsel concerning the disposition of this matter.

Response – The amount of overpayment has been calculated to date at approximately \$1,200 per member (two members) and the Commission Chairman will be advised of the overpayments. The Commission will be responsible for taking corrective action and for determining the repayment method.

Conclusion – Response acknowledged. The Board of Supervisors and County Attorney should require documentation of the Commission's corrective action.

- (13) Board of Review Minutes – Certain minutes of the meetings of the County Board of Review were not signed.

Recommendation – The County Assessor should insure minutes are signed as required.

Response – The County Assessor will make sure the minutes are signed.

Conclusion – Response accepted.

Montgomery County.

Schedule of Findings

Year ended June 30, 2004

- (14) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The County Recorder and the County Sheriff retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

Recommendation – The County Recorder and the County Sheriff should obtain and retain an image of both the front and back of each cancelled check as required.

Response –

County Recorder – I have talked to the bank and we are now receiving an image of the back of each cancelled check.

County Sheriff – We will begin obtaining copies of the back of checks.

Conclusion –

County Recorder – Response accepted.

County Sheriff – Response accepted.

- (15) Outstanding Checks and Warrants – Several outstanding checks and warrants were outstanding for more than one year.

Recommendation – Outstanding checks and warrants greater than one year old should be cancelled, removed from the list of outstanding checks and warrants, deposited to the account on which the check or warrant was written and credited as unclaimed fees and trusts. The Treasurer shall then maintain a list of the checks and warrants for one year after cancellation based on Code of Iowa Chapter 331.554 (6) and (7).

Response –

County Auditor – This is currently being addressed. Letters have been sent to those who have checks and warrants greater than one year old. If we do not receive a reply by June 17, 2005, we will cancel the checks or warrants, remove them from the list of outstanding disbursements, deposit to the account on which they were written and credit as unclaimed fees and trusts.

County Treasurer – This will be done as soon as possible.

Conclusion –

County Auditor – Response accepted.

County Treasurer – Response accepted.

Montgomery County

Schedule of Findings

Year ended June 30, 2004

- (16) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

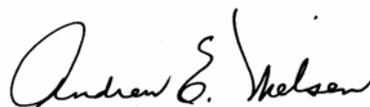
- (17) Reaudit – All items from the period ended June 30, 2002 reaudit and items submitted for the year ended June 30, 2004 reaudit have been addressed and resolved except as noted in this report.

Montgomery County

Staff

This audit was performed by:

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